

## Message Text

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ACTION MC-02

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FM AMEMBASSY PRETORIA  
TO SECSTATE WASHDC 6396

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E.O. 11652: N/A

TAGS: SF, MILI, ESTC, BEXP

SUBJECT: ARMS EMBARGO - SALE OF TELEDYNE ENGINES TO  
SOUTH AFRICA

REFS: STATE 277732 AND 297034

1. PURSUANT TO REFTELS, EMBOFF HELD MEETINGS WITH MESSRS. OSSIP AND SMIT OF GENERAL COMPONENTS LTD. AND DR. J.H. BARNARD, MANAGING DIRECTOR OF METPRO AND VISITED VETSAK PLANT AT BOTHAVILLE, ORANGE FREE STATE, AND VETSAK WAREHOUSES IN JOHANNESBURG. FOLLOWING IS SITUATION REPORT BASED ON THESE CONTACTS.
  2. DR. BARNARD REPORTED THAT FOUR PROTOTYPE TRACTORS WITH TELEDYNE ENGINES HAVE BEEN COMPLETED AND ARE NOW IN EXPERIMENTAL USE. THREE ARE ON TEMPORARY LOAN TO BOPHUTHATSWANA AGRICULTURAL AUTHORITIES AND ONE IS BEING RETAINED BY METPRO FOR TESTING. HE STATES TRACTORS PERFORMING UP TO EXPECTATIONS ALTHOUGH MINOR PROBLEMS HAD EMERGED. EMOFF OBSERVED ONE TRACTOR IN USE ON FARM NEAR PRETORIA WHICH APPEARED TO BE PERFORMING QUITE SATISFACTORILY.
  3. VETSAK HAS NOT YET BEGUN ACTUAL ASSEMBLY OF TRACTORS AT BOTHAVILLE PLANT. DR. BARNARD STATES THAT DELAY STEMS FROM VETSAK'S UNWILLINGNESS TO MAKE MAJOR INVESTMENT IN PRODUCTION PLANT UNTIL SUPPLY OF MINIMUM 300 ENGINES ASSURED. BARNARD STATED PRODUCTION SCHEDULE GIVEN TO EMBASSY IN JULY (PRETORIA 2993) WHICH CALLED FOR COMMERCIAL PRODUCTION
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TO BEGIN IN SEPTEMBER, 1976 WITH INITIAL 10 TRACTORS WAS

BASED ON VETSAK UNDERSTANDING THAT REMAINING 197 ENGINES WOULD BE LICENSED IN JULY. THEREAFTER VETSAK LEARNED THAT ONLY 100 ENGINES HAD BEEN LICENSED AND THAT NEW CLAUSE HAD BEEN ADDED TO EXPORT LICENSE STATING LICENSE CAN BE REVOKED BY SECRETARY OF STATE WITHOUT PRIOR NOTICE WHENEVER SECRETARY DEEMED SUCH ACTION ADVISABLE. THIS CLAUSE HAD NOT APPEARED IN EARLIER LICENSES. AS RESULT, VETSAK DECIDED TO DELAY START OF PRODUCTION UNTIL FULL 300 ENGINES LICENSED. BARNARD STRESSED VETSAK'S CONCERN OVER DEPENDABLE SOURCE OF ENGINES PRIOR TO MAKING PRODUCTION INVESTMENT AND THAT THIS POINT HAD BEEN MADE IN PREVIOUS DISCUSSIONS WITH EMBASSY AND DEPT. BARNARD CLAIMED THAT IN LIGHT OF PREVIOUS LICENSING UNCERTAINTIES AND POSSIBILITY THAT NEW ADMINISTRATION MAY ADOPT DIFFERENT LICENSING POLICY, VETSAK SERIOUSLY QUESTIONING WHETHER IT CAN DEPEND ON CONTINUING SUPPLY OF TELEDYNE ENGINES AND THEREFORE IS ACTIVELY STUDYING AN ALTERNATIVE GERMAN ENGINE. SECONDARY FACTOR IN DELAY OF PRODUCTION, ACCORDING TO BARNARD, HAS BEEN RECESSION IN SOUTH AFRICA AND WEAKENING OF DEMAND IN AGRICULTURAL SECTOR. HE STRESSED, HOWEVER, THAT LICENSING OF FULL 300 ENGINES IS KEY OBSTACLE AND PRODUCTION WILL BEGIN ONCE REMAINDER LICENSED. IF REMAINDER OF 300 NOT LICENSED, BARNARD BELIEVES TRACTOR DESIGN WILL BE CHANGED TO ANOTHER ENGINE (AT SOME EXPENSE AND TROUBLE) IN WHICH CASE CURRENT STOCK OF TELEDYNE ENGINES WOULD BE PLACED IN SWITCHING LOCOMOTIVES FOR WHICH THERE IS CONSIDERABLE DEMAND AT PRESENT.

4. THUS FAR 143 ENGINES HAVE BEEN DELIVERED IN SOUTH AFRICA: 4 INSTALLED IN PROTOTYPES, 129 STORED IN VETSAK WAREHOUSE NEAR JOHANNESBURG, AND 10 STORED AT VETSAK BOTHAVILLE PLANT. REMAINING ENGINES ARE IN TRANSIT. EMBOFF INSPECTED CRATED ENGINES AT JOHANNESBURG WAREHOUSE AND BOTHAVILLE PLANT AND CONFIRMED NUMBERS. BOTHAVILLE PLANT IN PROCESS OF EXPANSION AND HAS COVERED AREA WHERE TRACTOR ASSEMBLY COULD BE CARRIED OUT BUT LARGE INVESTMENT SPECIFICALLY FOR TRACTOR ASSEMBLY HAS NOT BEEN MADE.

5. COMMENT AND RECOMMENDATIONS: IN LIGHT OF FACT THAT VETSAK PLANT HAS NOT UNDERTAKEN PRODUCTION OF TRACTORS, EMBASSY CANNOT RECOMMEND THAT FINAL 97 ENGINES BE LICENSED LIMITED OFFICIAL USE

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AT THIS TIME. FIRM WAS FULLY AWARE THAT OUR EFFORTS TO FIND BASIS FOR LICENSING THESE ENGINES WAS CONDITIONAL ON THEIR PLAN TO USE IN PRODUCTION OF TRACTORS. ALSO WHILE VETSAK APPARENTLY FEELS DELAY IN PRODUCTION WAS BASED ON GOOD AND VALID REASONS, THEIR FAILURE TO INFORM EMBASSY IMMEDIATELY ON RECEIPT OF LICENSE WITH OBJECTIONABLE NEW CLAUSE TO EXPLAIN THAT PRODUCTION PLAN PROVIDED IN JULY HAD BEEN SCRAPPED RAISES QUESTION OF SERIOUSNESS WITH WHICH THEY VIEW OBLIGATIONS

UNDER LICENSE.

6. WE FIND IT SURPRISING VETSAK IS WILLING TO ALLOW \$7 MILLION WORTH OF ENGINES TO REMAIN IN STORAGE AND FEEL THEIR EXPLANATIONS ARE VAGUE. NEVERTHELESS, FIRM HAS COOPERATED FULLY WITH OUR INVESTIGATION, INCLUDING CHARTERING OF PLANE TO BOTHAVILLE. IN OUR OPINION, THERE IS NO INTENT TO DIVERT FROM CIVIL PURPOSE. POSSIBLY, BECAUSE OF UNWILLINGNESS TO ADMIT A BAD BUSINESS DECISION, RECESSION WAS A GREATER FACTOR IN DELAYING PRODUCTION THAN INDICATED BY BARNARD.

7. IF DEPT CONCURS THAT LICENSE SHOULD NOT BE ISSUED AT THIS TIME, WE WOULD RECOMMEND THAT EMBASSY OR DEPT BE AUTHORIZED TO EXPRESS TO VETSAK IN WRITING OUR UNHAPPINESS OVER FAILURE TO KEEP US INFORMED AND TO ADVISE VETSAK AND GENERAL COMPONENTS AT EXACTLY WHAT LEVEL OF ACTUAL TRACTOR PRODUCTION REMAINING 97 ENGINES WOULD BE LICENSED. EMBASSY WOULD SUGGEST THAT AFTER 80 TRACTORS ASSEMBLED, REMAINING 97 COULD BE LICENSED. WE WOULD ALSO ADVISE VETSAK OF OUR INTENTION TO CHECK PHYSICALLY STATUS OF ENGINES EVERY 60-90 DAYS. EMBASSY WOULD ALSO RAISE MATTER WITH SOUTH AFRICAN DEPT OF FOREIGN AFFAIRS DRAWING ATTENTION TO CURRENT STATUS OF ENGINES AND TO ASSURANCES REGARDING CIVILIAN USE OF ENGINES CONTAINED IN S.A. EMBASSY NOTE TO DEPT OF 4/16/75.

8. WOULD APPRECIATE CLARIFICATION OF STAMP ON LICENSE OF JULY 13, 1976 RESERVING RIGHT TO REVOKE OR SUSPEND. IS THIS NOW STANDARD LANGUAGE ON ALL LICENSES?  
BOWDLER

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## Message Attributes

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